ATTN: International Tax Reform Working Group

15 April 2013

Dear Representative Nunes and Blumenaur,

I am writing to ask that the International Taxation Committee of the Ways & Means Committee for Tax Reform seriously consider the ACA proposal for reform to Residency-based taxation RBT. See link: http://americansabroad.org/files/6513/6370/3681/finalsubrbtmarch2013.pdf I will first call attention to the general problem and then will give my personal reasons for concern.

General problem: As one of nearly 7 million American citizens living, working and voting from abroad, and contributing to the economic growth of the U.S. economy, I believe the current Citizenship based taxation regime must be reformed. Current tax policy is negatively affecting Americans abroad and their ability to compete for jobs, grow the US economy through international business and exports, and live overseas. Current tax policy damages both individuals and the welfare of our country.

The following are some examples of the fallout on Americans working overseas from current U.S. Citizenship based taxation, as summarized by ACA:

Inability to relocate and work internationally
Denial of job opportunities or job advancement
Refusal of entry into business partnerships
Closure or denial of financial instruments (pensions, insurance policies, bank accounts, etc.)
Exposure to double taxation or increased tax burden
Financially ruinous penalties due to broad application of criminal tax evasion regulations on those making simple filing errors due to complexity of the US tax code.

Personal reasons for concern: As a couple working and residing in Australia for many years, my husband and I have been personally affected by citizenship-based taxation in many ways, and I hope that you will understand our concern as individuals and our desire to have Residency-based taxation replace the current system.

- **The tax treaty between Australia and the United States appears to exclude Australian pensions from U.S. taxation. However, it taxes pensions fully even though Australian pensions are designed to be tax free at the distribution stage because they are taxed at the contribution stage.** When my husband retired, he discovered that the tax treaty intended to prevent double taxation covers only safety net pensions in Australia. (This is despite the fact that the tax treaty misleadingly suggests that all "pensions" are to be taxed by the state in which they are given.) The safety-net age pension in Australia is fully available only to those whose retirement income is less than $3900 a year. My husband's pension based on years of work is considered by the U.S. to be a "non-qualified" pension even though it is mandated by the government of Australia and is subject to strict government regulation. The tax he paid to Australia on his contributions could not be counted as a foreign tax credit for U.S. tax purposes. Hence we are second-class citizens in Australia, receiving substantially less pension than a comparable Australian citizen, and we are second-class citizens in the U.S. where my husband was far from getting a tax deduction for his contributions and where an employer's contributions were reportable as income. Ironically, I myself am receiving a pension based on work in the United States that is according to the tax treaty to be taxed by Australia!

- **The need to complete tax returns in two different countries at two different times in two different currencies, with increasingly complex rules for U.S. tax returns, causes**

an emotional impact and stress levels that are incalculable. The Australian tax year is from July 1st to June 30th while the U.S. tax year is from January 1st to December 31st. The computations needed for one tax return cannot apply to the other. Working out the currency equivalences is difficult. If we should have to sell our house to move into assisted living, how would I figure out whether we owe the U.S. capital gains tax on our home? In Australia we would not owe capital gains on our home because we received no tax deduction for mortgage interest. (No deductions for mortgage interest were claimed on the U.S. tax returns because the easier standard deductions were used.) To determine how much U.S. capital gains tax we owe on the home here in Australia, we have to calculate not only the purchase price but any renovations at the cost in U.S. dollars *at the time they were done* over the years. Given that the Australian dollar fell below the U.S. dollar and was worth 50 cents at one time in the past and is now worth slightly more than the U.S. dollar, to sell now could theoretically double the capital gain on our home, even though the fluctuations in the dollar are essentially irrelevant to our experience. The complexity and indecipherability of the rules as well as the increasingly horrifying penalties for errors (with the assumption of criminality by the IRS and the full execution of every dot and tittle of the law – and I use the term "execution" advisedly) leaves us in terror. The U.S. Embassy in Australia does not provide at any time assistance from the IRS. For such help, U.S. citizens need to go to the Philippines, which is nearly a 10-hour flight. My husband has had two different malignancies, one of which "recurs relentlessly"; and I have had one. We have survived them thus far. But I question our survival financially, emotionally, and physically if we continue to be subject not merely to double taxation but also the increasingly strident threats by the IRS.

- **We are concerned about younger friends who were born in the U.S. when their parents were briefly studying there and who have never visited the U.S. or even been aware until recently that they are U.S. citizens**. Of course, they have never completed U.S. tax returns. Yet they are subject to the same unfair taxation and draconian penalties that we are.

Please seriously consider the RBT proposal submitted by American Citizens Abroad (ACA). A move towards a residence-based system, like the rest of the world, not only would be simpler and fairer for Americans living abroad, but it would actually bring in MORE tax revenue than the current system, which wastes compliance resources for very little return. RBT would increase United States exports strongly by facilitating American mobility in the global business environment of today's world.

Yours sincerely,

Sue Latham
(my full address is in the covering email message)